INSTITUTE OF COST AND MANAGEMENT ACCOUNTANTS OF PAKISTAN

Fall (Winter) 2009 Examinations

Sunday, the 22nd November 2009

MANAGEMENT ACCOUNTING - BUSINESS STRATEGY – (S-603)
STAGE – 6

Time Allowed – 2 Hours 45 Minutes | **Maximum Marks – 90**

(i) Attempt all questions.
(ii) Answers must be neat, relevant and brief.
(iii) In marking the question paper, the examiners take into account clarity of exposition, logic of arguments, effective presentation, language and use of clear diagram/ chart, where appropriate.
(iv) Read the instructions printed on the top cover of answer script CAREFULLY before attempting the paper.
(v) Use of non-programmable scientific calculators of any model is allowed.
(vi) DO NOT write your Name, Reg. No. or Roll No. anywhere inside the answer script.
(vii) Question No.1 – "Multiple Choice Question" printed separately, is an integral part of this question paper.

Marks

Q. 2 **(a)** Without a strategy, an organization is like a ship without rudder, going around in circles. It's like a tramp; it has no place to go.

Do you agree with this statement? Give your comments by substantiating what financial and non-financial benefits an organization can drive having strategic management process in practice? 05

(b) Peter Drucker a management legendry and guru said "a business is not defined by its name, statutes or articles of incorporation. It is defined by the business mission. Only a clear definition of the mission and purpose of the organization makes possible clear and realistic business objectives".

Substantiate this statement with some supporting arguments. Further describe the components of the formal mission statement. 05

(c) Based on the well structured nine components, which formed the foundation of well defined mission statement of the company, write the mission statement of any company deals in computers/ I.T. 05

Q. 3 "Strategic Management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action. But quantification alone is not planning. Some of the most important issues in strategic management cannot be quantified at all. Further objectives are not commands; they are commitments; they do not determine for future; they are the means to mobilize resources and energies of an organization for making of the future".

Taking the spirit from the captioned statement answer the following questions:

(a) Does corporation really need a board of directors? 02

(b) What role board of directors play in strategic management? 03

(c) What are the responsibilities of board of directors? 08

(d) What is the relationship between corporate governance and social responsibilities? 07

PTO

Marks

Q. 4 (a) What is the relevance of the resource-based view (RBV) of the organization to strategic management? 05

(b) Explain “empirical” indicators. 05

(c) How can a value chain analysis help identify a company’s strengths and weaknesses? 07

(d) Do you agree ‘benchmarking’ is an effective tool used to determine organization’s competitive advantage as compared to the competitor? 03

Q. 5 Strategy evaluation must make it as easy as possible for managers to revise their plans and reach quick agreement on the changes. Unless strategy evaluation is performed seriously and systematically, and unless strategists are willing to act on the results, energy will be used up defending yesterday. No one will have the time, resources or will to work on exploiting today, let alone to work on making tomorrow.

In the light of this statement explain the following:

(a) In order to make an evaluation of the strategy more meaningful do you think strategic management should be more visible or hidden as a process in an organization? 08

(b) Why the Balanced Scorecard is an important technique both in devising objectives and evaluating strategies? 07

Q. 6 (a) In evaluating company’s financial strategies, a checklist is normally prepared by the financiers, shareholders, auditors and other key stakeholders regarding finance/ accounting function. Produce a checklist containing relevant and most important questions that you will ensure to examine. 04

(b) Selected ratios for three different companies that operate in three different industries (merchandising, pharmaceuticals, utilities) are reported in the table below:

Ratios	Co.A	Co. B	Co. C
Gross profit margin ratio	18%	53%	not applicable
Net profit margin ratio	2%	14%	8%
Research and development to sales	0%	17%	0.1%
Advertising to sales	7%	4%	0.1%
Interest expense to sales	1%	1%	15%
Return on assets	11%	12%	7%
Accounts receivable turnover	95 times	5 times	11 times
Inventory turnover	9 times	3 times	not applicable
Long-term debt to equity	64%	45%	89%

Required:

Identify the industry that each of the companies, A, B, and C operate in. Give at least two reasons supporting each of your selections. 08

(c) Kampa Company and Arbor Company are similar firms that operate in the same industry. Arbor began operations in 2001 and Kampa in 1995. In 2006, both companies pay 7% interest on their debt to creditors. Comparative financial key ratios and sales of the two companies are given below:

Particulars	Kampa Company			Arbor Company		
	2006	2005	2004	2006	2005	2004
Total asset turnover (times)	3.0	2.7	2.9	1.6	1.4	1.1
Return on total assets	8.9%	9.5%	8.7%	5.8%	5.5%	5.2%
Profit margin	2.3%	2.4%	2.2%	2.7%	2.9%	2.8%
Sales (Rs.)	400,000	370,000	386,000	200,000	160,000	100,000

Required:

Write a brief report comparing Kampa and Arbor using the above information. Your discussion should include their ability to use assets efficiently to produce profits. Also comment on their success in employing financial leverage in 2006. 08

THE END